

EXAM 8 – FALL 2011

12. (1.5 points)

In 1998, the National Council on Compensation Insurance (NCCI) made the following changes to the Workers Compensation Experience Rating Plan:

- **Reduced the weight on medical-only losses**
- **Increased the weight on excess losses**
- **Made the primary-excess split of actual losses inflation-sensitive**

Briefly discuss whether each of these changes supports the following goals of experience rating:

- **Safety incentive**
- **Predictive accuracy**

Question 12

Sample 1

1) ↓ Weight on med-only losses: Now that the weight has been reduced to 30% previous non-reporters may now report their med-only losses. If they must report them, they have an incentive to keep claims down, so that their mod is as low as possible.

Also improves predictive accuracy because the insurer gets a more complete, true assessment of the insured's loss potential (by receiving all info)

2) ↑ Weight on xs losses: Definitely promotes safety: fewer xs losses (which now have more weight) → lower mod → lower premium.

This change improved plan performance, so necessarily predictive accuracy improved.

3) Split point inflation-sensitive:

- No foreseeable effect on safety incentive.
- Improves predictive accuracy because it retains an appropriate portion of primary losses, which represent frequency (XS losses represent severity). This also improves plan performance.

Sample 2

	<u>safety</u>	<u>predictive accuracy</u>
reduced weight on med-only loss	employers will report more of their med-only losses which will increase their safety	does not affect
increased weight on excess losses	increases the safety incentive as more of the excess losses will be included in the mod calculation	improves predictive accuracy; excess credibility was shown to be too low
primary/excess split inflation sensitive	no support	with inflation it becomes important to the accuracy of the plan to increase the split. D-ratios and W values can be distorted if no movement is made.